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FISCAL IMPACT STATEMENT

LS 7046 | **NOTE PREPARED:** Jan 10, 2003
BILL NUMBER: HB 1580 | **BILL AMENDED:**

SUBJECT: Income Tax Credits and Deductions.

FIRST AUTHOR: Rep. Noe | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill provides that a taxpayer filing a single return may not claim the additional $500 income tax deduction for the elderly if the taxpayer's adjusted gross income is more than $20,000. (Under current law, a $40,000 income limitation applies to taxpayers filing a single return and to married taxpayers filing a joint return.) The bill also increases the amount of the unified income tax credit for the elderly for a claimant residing with a spouse who is also eligible for the credit.

Effective Date: January 1, 2004.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes made in the bill. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill could potentially increase revenue from the Adjusted Gross Income (AGI) Tax by $428,000 to $475,000 in FY 2005. This is a net impact of two changes made in the bill. The exclusion of some single return filers from the additional deduction for elderly taxpayers is estimated to increase AGI Tax revenue by approximately $572,000 to $619,000 in FY 2005. Conversely, the increase in the unified tax credit for certain elderly taxpayers filing a joint return is estimated to reduce AGI Tax revenue by about $144,000 in FY 2005.

Additional Deduction for the Elderly: The bill would reduce the income limitation from $40,000 to $20,000 for single and separate return filers to claim the additional $500 deduction for individuals 65 and older. Under current law, single, separate, and joint filers with incomes below $40,000 are entitled to the deduction.

On joint returns a $500 deduction each may be claimed for the filer and spouse if both are 65 or older. The deduction was first allowed in tax year 1999. In 1999, 28,877 single and separate filers with incomes from $20,000 to $40,000 claimed the deduction. This total increased by 8.2% to 32,331 in 2000. (At the same time total claims actually declined by 1.4%, from 334,379 in 1999 to 329,782 in 2000.) Assuming annual growth rates of 1% and 3%, it is estimated that the number of single and separate filers with incomes ranging from $20,000 to $40,000 could range from 33,600 to 36,400. These growth rates are used in view of the overall decline in filers claiming the deduction and assume that after a brief startup period annual growth for the focal group would be lower. The $500 exemption for this group could potentially cost $572,000 to $619,000.

Unified Tax Credit for the Elderly: Current law provides for a declining refundable tax credit for taxpayers who are 65 or older with annual incomes below $10,000. The value of this credit depends on taxpayer income and filing status. Under current law, the credit on a joint return where both filer and spouse are 65 or older is: (1) $140 if annual income is less than $1,000; and (2) $90 if annual income is $1,000 but less than $3,000. The bill increases these credit amounts to $200 and $100, respectively. In tax year 2000, 111,513 taxpayers claimed the elderly unified credit. Of this total, 2,299 joint filers claimed the $140 credit and 2,260 joint filers claimed the $90 credit. From 1996 to 2000, the number of joint filers claiming this $140 credit declined by an average of 1.86% annually. During the same period, joint filers claiming this $90 credit declined by 8.46% annually. Assuming these annual rates of decline through 2004, it is estimated that 2,133 joint filers will claim the new $200 credit in 2004 and 1,587 joint filers will claim the new $100 credit that year. Thus, total additional credits would amount to almost $144,000.

Since the changes under the bill are effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed change to the deduction for the elderly would serve to increase taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable increase in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: OFMA Income Tax Database, 1996-2000.

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